

MEDICARE

Summary

Medicare is a Federal health insurance program for people age 65 or older and people under age 65 who are disabled or suffer from end-stage renal disease (ESRD). In FY 1997, the program will serve approximately 38.1 million eligible individuals. Medicare consists of two parts:

- Part A--Hospital Insurance (HI)

Pays for inpatient hospital care, certain inpatient care furnished in skilled nursing facilities, home health care and hospice care. The HI program is funded through the HI Trust Fund. The Fund receives most of its income from the HI payroll tax (2.9 percent of payroll, split between employers and employees).

- Part B--Supplementary Medical Insurance (SMI)

Pays for medically necessary physicians' services, outpatient hospital services, treatment for ESRD, laboratory services, durable medical equipment and certain other medical services and supplies. The SMI program is funded through the SMI Trust Fund. The Fund receives income primarily from two sources: a general revenue transfer and premiums paid by enrollees.

Total Medicare benefit outlays in FY 1997, including the effect of legislative proposals, are estimated at \$206 billion, 6.6 percent higher than FY 1996 estimated benefit outlays. This increase in outlays reflects projected growth in beneficiary enrollment, service utilization and inflation.

Strengthening Medicare

The President's Medicare plan strengthens and improves the program, reducing spending by a net \$124 billion over seven years and guaranteeing the solvency of the trust fund for more than a decade. Specific reforms give seniors more choices among private health plans, make Medicare more efficient and responsive to beneficiary needs, attack fraud and abuse through programs praised by law enforcement officials, cut the growth rate of provider payments, and hold the Part B premium at 25 percent of program costs.

Provider Payment Reforms and Program Savings

- **Hospitals:** The budget reduces the annual inflation increase or "update" for payment for inpatient care and adjusts payments for capital. It also reforms the payment method for outpatient departments while protecting beneficiaries from increasing charges for those services.
- **Managed Care:** The budget reforms payments by using reasonable rate-of-growth

limits on updates for managed care payments and reducing the current geographic variation in payments.

- **Physicians:** The budget reforms physician payments by paying a single update for all physicians and replaces current "volume performance standards" with a sustainable growth rate.
- **Home Health Care/Skilled Nursing Facilities:** The budget implements a series of interim payment reforms before the establishment of fully prospective payment systems for home health care and skilled nursing facilities.
- **Fraud and Abuse:** The budget introduces aggressive and comprehensive policies to help stamp out Medicare waste, fraud, and abuse, and extends and enhances Medicare secondary payor policy to ensure that Medicare pays only when it should.
- **Other Providers:** The budget freezes updates for durable medical equipment and ambulatory surgical centers and reduces payments for oxygen.
- **Beneficiaries:** The budget continues, but does not increase, the requirement that beneficiaries pay 25 percent of Part B costs.

Provisions to Improve Rural Health Care

The President's plan enhances access to, and the quality of, health care in rural areas. To do so, it extends the Rural Referral Center program, directs Medicare reimbursement for nurse practitioners and physician assistants, improves the Sole Community Hospital program, and expands the Rural Primary Care Hospital program and provides grants to promote telemedicine and rural health outreach.

Program Improvements that Expand Choices and Add Preventive Benefits

The President's plan transforms the traditional fee-for-service program from a bill-paying insurance program into a responsive health plan by giving Medicare authority to adopt many of the purchasing and quality techniques pioneered by private sector payors.

The budget also expands and improves Medicare managed care by:

- ensuring beneficiary protections while increasing the types of plans--including Preferred Provider Organizations (PPOs) and Provider Sponsored Networks (PSNs)--available to seniors; and
- instituting a coordinated open enrollment process--similar to that used by the Federal Employees Health Benefits Plan (FEHBP)--during which beneficiaries use comparative information to choose among managed care and supplemental insurance options.

In addition, the budget expands coverage of preventive benefits to include annual

mammograms and the elimination of mammography coinsurance, colorectal cancer screening, and increased payments for flu shots. Finally, the budget introduces a respite care benefit to provide some relief for families caring for relatives with Alzheimer's disease.

Medicare Baseline

The President's budget estimates that Medicare benefits will be \$1.6 trillion from 1997-2002. This represents a decrease in the estimate of \$5.3 billion over the six years compared to Mid-Session Review (MSR), a drop of 0.3 percent. However, this reflects an increase of \$37 billion in Hospital Insurance (HI or Part) balanced by a decrease of \$42.3 billion in Supplementary Medical Insurance (SMI or Part B). While economic changes brought the estimate for Medicare spending down from the MSR, technical changes worked in the opposite direction to increase the estimate of outlays.

- The \$7 billion upward **technical** re-estimate for the period 1997-2002 was comprised of the following baseline adjustments:
 - The estimated Part A increase of \$41.4 billion hinged on higher projected outlays for inpatient services, skilled nursing facility services, and home health services. The largest estimated increase, both in percentage and actual dollars, occurred in home health services, with a technical increase of over \$27 billion. The increases were partially offset by a lower estimate for hospice services, which dropped about \$8 billion.
 - The estimated Part B technical decrease of \$34.3 billion largely offset the Part A increase. The Part B decrease was comprised of lower spending projections for physician, outpatient, and group practice outlays. Estimates for both independent labs and Part B home health outlays increased by a small amount.
- The **economic** decrease of \$12.3 billion for the period 1997-2002 incorporated the following baseline adjustments:
 - In Part A, new economic assumptions decreased the baseline by \$4.4 billion due to decreases in growth assumptions for wages and prices.
 - In Part B, new economic assumptions decreased the baseline by \$7.9 billion, due almost solely to anticipated decreases in the Medicare economic index. This index is also sensitive to changes in wages and prices.

MEDICARE OVERVIEW

(Beneficiaries in millions)				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>+/-</u>
<u>Persons Enrolled:</u>				
Hospital Insurance				
(HI Part A)	36.9	37.5	38.1	+0.6
Supplementary Medical				
Insurance (SMI Part B)	35.5	36.0	36.5	+0.5
(Outlays in millions) ¹				
	<u>1995</u> <u>Actual</u>	<u>1996</u> <u>Policy</u>	<u>1997</u> <u>Request</u>	<u>Request</u> <u>+/-Policy</u>
<u>Current Law:</u>				
HI Benefits	\$113,403	\$124,841	\$136,799	+\$11,958
SMI Benefits (including ESRD)	63,482	69,055	76,287	+7,232
Peer Review Organizations	<u>190</u>	<u>268</u>	<u>270</u>	<u>+2</u>
Subtotal, Med. Ben. w/PROs	\$177,075	\$194,164	\$213,356	+\$19,192
HCFA Admin/Research	\$2,109	\$2,137	\$2,191	+\$54
Intergovernmental Transfer	--	\$319	--	-319
SSA/Non-HCFA Admin	<u>913</u>	<u>968</u>	<u>1,009</u>	<u>+41</u>
Subtotal, Admin.	\$3,022	\$3,424	\$3,200	-\$224
Total, Current Law Outlays	\$180,097	\$197,588	\$216,556	+\$18,968
<u>Proposed Legislation:</u>				
Part A Savings	--	-\$151	-\$14,184	-\$14,033
Part B Savings	<u>--</u>	<u>-10</u>	<u>7,734</u>	<u>7,744</u>
Total, Outlays, Net				
Proposed Law	\$180,097	\$197,427	\$210,106	+\$12,679
<u>Offsetting Receipts</u>	-\$20,242	-\$19,842	-\$20,287	-\$445
Effect of P.L. on				
Offsetting Receipts ²	<u>--</u>	<u>--</u>	<u>288</u>	<u>+288</u>
Total, Net Outlays ³	\$159,855	\$177,585	\$190,107	+\$12,522

¹ Numbers may not add due to rounding.

² Offsetting receipts include premiums collected from beneficiaries under Medicare Parts A and B.

³ Total Net Medicare Outlays equal current law outlays minus the impact of proposed legislation and offsetting receipts. Total does not include the Clinical Laboratory Improvement Amendment (CLIA) or the HMO Loan Fund.